A GLOBAL OVERVIEW ON SOCIAL SECURITY IN THE AGE OF LONGEVITY

Roland Sigg, International Social Security Association[*]

One of the key challenges confronting countries with an ageing population over the coming years is to guarantee to the whole older population an adequate level of income without placing excessive demands on younger generations and on national economies. This dilemma has direct implications for social security systems and their ability to achieve their goals.

An increasing number of countries are affected by population ageing, which has triggered increasing concern over the future of social security, both for its sustainability and for the capacity of these societies to extend coverage to the often large section of the population excluded from receiving social security benefits. Debate on pension reform and on controlling health-care expenditure centres mainly on the financial viability of retirement and health-care plans in ageing societies. Our ability to gauge the future of such societies is inextricably linked to the sustainability of their social protection programmes over the next few decades. There is a need to consider not only the economic dimension, but also the social dynamics of an ageing population. Can free choice and individual responsibility be promoted in a way that avoids social segmentation and instability? Can social security be extended to the non-formal sectors of the economy? It remains to be seen what path social security systems can take to meet the challenges and opportunities of population ageing. How can social protection be secured and extended in a way that is efficient and fair? The future of ageing societies depends on their governments' ability to adopt a comprehensive approach to social security that is both economically and socially viable.

Despite the vast number of issues yet to be tackled by social policies, this paper argues that social security systems do have the capability to adjust to the emerging needs of workers and citizens in the unprecedented demographic, social and economic environment of ageing societies (or to use a more positive term, "long-life societies"). It further argues that new tools exist to allow governments in the least wealthy societies to provide basic social security to all.

A. SETTING THE PICTURE

Since the mid-1990s, there has been much talk of the threat that population ageing poses for social security programmes, more specifically pension and health-care schemes. The statistics are quite striking. Demographic forecasts show that, in roughly fifty years' time, the percentage of over-60s in industrialized countries will have grown from 20 per cent to 35 per cent of the overall population. The increase will be even more staggering in the developing world, from 8 per cent to 20 per cent, representing a fourfold rise in the proportion of older people. By 2030, the number of over-60s living in the People's Republic of China is expected to have reached 350 million, equal to the total population of the European Union (EU) before its recent expansion.

Another indicator frequently highlighted is the ratio of pensioners to people of working age (or economically active). In industrialized countries, current forecasts see that ratio shifting from today's level of 4 or 5 potential workers aged 15-64 for every pensioner to just 2 potential workers for every pensioner by 2050.

---

[*] The responsibility for opinions expressed in this paper rests solely with the author, and does not constitute an endorsement by the ISSA of the opinion expressed in it.

Drawing on linear estimates of population growth and changes in social expenditure, a number of international financial institutions have concluded that, if current trends hold, public spending on pensions will increase dramatically in all parts of the world over the next fifty years. The outlay in countries of the Organization for Economic Cooperation and Development (OECD) is now 10 per cent of GDP, but is forecast to stabilize at 17 per cent within thirty years, amounting to a 70 per cent increase. It is hard to see how these costs could be met. A United Nations Population Division report calculated that today's ratio of working-age population to every non-worker could only be sustained through to 2050 if mass immigration were fostered (e.g., 12.7 million workers per annum to the EU, over 30 times the current net migration flow) or the retirement age were increased to over 75 years (United Nations, 2001). Both options are clearly unrealistic. Is the only alternative urgent and rapid reform, or indeed the disbanding of pension and health-care schemes? Is that, ironically, the only way to salvage an income for future pensioners and to safeguard future economic growth, which is threatened by the ageing crisis, as suggested by the World Bank (1994)?

The facts appear merciless. Today, population ageing and an attendant social security crisis seem inevitable. To make matters worse, there is doubt in political, media and other influential circles about the State's ability to tackle this problem effectively.

On a less pessimistic note, other experts contend that population ageing is not the foremost threat facing social security systems, despite the worrying shift in dependency ratios (Economic Policy Committee, 2000; Mullan, 2000). The past fifty years have seen efficient old-age protection schemes introduced, which have slashed poverty rates among older people without jeopardizing economic growth. Experts argue that the same truth still holds today: the bottom line is the capacity of a society – and its economy – to provide all its citizens, irrespective of age, with a decent standard of living by ensuring steady production levels. In other words, population ageing is only a cause for concern if a society's lifeblood, not least its productive activity, fails to expand.

Beyond the myths of population ageing

Before examining possible ways of easing the pressure caused by population ageing, we first need to look at the evidence. There is no denying that the number of older people is increasing. However, the ensuing impact on society, the economy and, of course, social security expenditure is by no means as clear-cut. The negative connotations that tend to permeate such debate are striking.

While it is generally recognized that longer life expectancy is one of the greatest achievements of the twentieth century, emphasis tends to be placed on the looming pension crisis and sustainability of economic growth. Whereas increased life expectancy is highly valued at an individual level, the prospect of an ageing society and the associated social and economic implications engender nothing but doom and gloom.

Focused on the so-called ageing crisis, this debate has contributed to the perception that older persons are generally economically dependent and thus a considerable burden on society. However, it needs to be recognized that older people contribute in various ways to the economic and social development of their communities. All over the world, most older persons continue to work, in both paid and unpaid jobs. There is no economic or biological basis for retirement at a fixed, socially determined, "old" age. For instance, in national economies dominated by the agricultural sector, older farmers, men and women, carry on working in farm production until the limit of their physical capacity. And in industrialized countries today, there is a growing recognition that older people should be fully enabled to work as long as they desire.

Gloomy scenarios concerning ageing are based on the projected impact that population ageing will have on pension and health-care schemes over the next 40 to50 years. These projections are often based on misconceptions and underestimate the social and economic changes that the next fifty years might bring. What forecasts could have been done in 1955 about the state of the world today? There is no reason to suppose that we will not continue to witness the same degree of change as over the past half a century. It is probably just as difficult for us now as it was then to foresee what our world will be like in another fifty years' time. Many of today's forecasts assume that social security systems will remain virtually unchanged in the future. However, pension and health-care systems are undergoing major reforms, and these changes will make their mark over the next twenty to thirty years. More reforms can be expected, and this should be taken into account.

B. STRENGTHENING THE SUSTAINABILITY OF SOCIAL SECURITY SYSTEMS

It is important to dispel some of the myths about the implications of ageing populations. The intention is not to dismiss the real difficulties that social security schemes may face in future, but to put into perspective the doomsday scenarios that permeate debate in this area.

The trend of ageing population is usually presented as a major threat to the economy. Particularly in industrialized countries, there is a growing concern about the cost to society of providing pensions and health care for older people and whether costs could be reduced by opening social protection to more private sector competition. It is often argued (see in particular World Bank, 1994), that moving from a pay-as-you-go scheme towards a funded one will resolve adverse demographics. As demonstrated by several scholars (see Barr, 2002; Orszag and Stiglitz; 2001, Thompson, 1998), there is no evidence, from an economic point of view, that demographic change is a strong argument for a shift towards funding.

Indeed, one could argue that the shift from pay-as-you-go systems to funded systems is merely a matter of pure reallocation of financial burden between generations. Furthermore, different opinions exist as to whether one of these systems is superior to the other in terms of improving the general economic framework and generating wealth, not only through the link between pension funds, saving and capital formation, but also through various externalities (impacting labour and capital markets).

In fact, the factors to guarantee the sustainability of social security systems all revolve, in one way or another, around employment.

Job promotion

Job promotion is just as crucial as economic growth to the future of social protection systems. A wide range of recent studies has shown that the drop in labour supply triggered by population ageing could be partially offset by higher labour-market participation, at least over the next twenty-five years. This type of corrective measure is chiefly needed in European countries. Each country's starting point – that is, its potential for increasing employment – varies according to its rate of unemployment, the number of working women, the average retirement age, its birth rate and the number of immigrant workers. In many OECD countries, the share of the population of prime working-age (20-64 years) is projected to decline substantially over the next fifty years. Thus, if nothing is done, the ratio of older inactive persons per worker will almost double from around 38 per cent in 2000 to just over 70 per cent in 2050. Ageing on this scale would place substantial pressures on public finances and lead to slower economic growth, especially in per capita terms, unless the countries adapted their employment and social policies to demographic realities. Concretely, policies which encourage a higher labour force participation rates among older people and younger age groups, especially among women and older workers, must be implemented in order to offset the negative consequences of ageing.

Hence job promotion is a vital instrument in reducing the economic cost of population ageing and in fostering overall prosperity. The problem is that, for years, many countries have been grappling with acute unemployment and underemployment, and the policies implemented to tackle these issues have failed, leaving little hope of higher employment rates. Some experts believe that the dismal results of employment policies implemented in most European countries, and their relatively low employment levels, have exacerbated the implications of population ageing. If a substantial proportion of the working-age population is jobless, those in employment are called upon to support a larger number of dependent citizens. More optimistic specialists argue that this trend might ultimately prove to be an asset, as the resulting labour-market reserve could be used to boost job rates, whereas high-employment countries would find it hard to increase their workforce further.

In most European countries, high unemployment is combined with a shortage of skilled workers in some sectors, with the situation set to worsen once the sizeable ranks of the baby boom generation retire. The effectiveness of job creation policies in these countries will therefore depend on their ability to bring the jobless (back) into the labour market. To that end, greater investment must be channelled into the education and vocational training of jobseekers to align their qualifications and skills more closely with companies' needs.

Greater female participation in the labour market is often perceived as one of the key answers to population ageing. As can be seen in Nordic countries, relatively high fertility rates do not necessarily rule out an increased female presence in the workforce, although the State must provide families with benefits and social services, and employers must offer both parents working conditions that enable them to reconcile professional and family lives. It should be noted that the impact of higher female employment is contingent not only on the number of women in paid work, but also on the type of jobs they hold. If most women entering the workforce are in part-time, unstable jobs, the benefits could be limited, despite a nominal rise in overall employment.

Increased female participation in the workforce is not only an effective way of safeguarding families, particularly single-parent families, against poverty. It also fosters greater financial security for retired women, most of whom will live much longer than men. Low wages, career breaks and the skewed division of unpaid work mean that older women are not always entitled to a pension, and if they do receive one, it is generally lower than that accruing to men. Bolstering the number of women in the labour market will therefore have the dual advantage of restoring balance to the ratio between workers and dependants and securing women a higher income during retirement.

Other categories of "non-workers" could be tapped to boost labour supply, subject to the right policies being implemented. Cases in point are the long-term unemployed and the considerable number of people drawing disability pensions, many of whom could return to employment through reintegration policies (workplace adjustments, change in attitudes, legislative incentives, etc.).

Together with economic growth, job creation is vital in safeguarding the future of an ageing population. The viability of social protection systems and personal retirement savings schemes is largely contingent on society's ability to right the balance between workers and dependants in a fair and effective manner.

Reversing the trend towards early retirement and combating ageism

Reversing the trend towards early retirement is another cornerstone for any strategy designed to make social security systems viable (Sigg, 2005). Measures to this end would correct a paradoxical situation, in which older people live longer and enjoy better health, yet the effective retirement age has fallen drastically over the past thirty years. Despite a recent reversal in many countries, the effective retirement age is still, on average, significantly lower than the statutory threshold. Many companies still use early retirement as a relatively inexpensive and socially acceptable way of downsizing. That policy, however, carries a hefty price tag for society in general, which is called upon to fund the social benefits accruing to those taking early retirement and to shoulder the related loss of human capital and productive capacity.

Harnessing older workers' productive capacity for a longer time would strengthen the viability of pension schemes in three ways: (i) goods and services produced by a larger workforce would bolster economic growth; (ii) payment of pensions, unemployment and disability benefits would be postponed for those remaining in employment; and (iii) increased tax revenue and social security contributions would help fund pensions and other benefits. In other words, it would be in the interests of government authorities to take measures to align the effective retirement age much more closely with the legal pension age rather than raising the latter.

A move away from early retirement would require a major change in socio-cultural models and attitudes, however. In many societies, early withdrawal from the labour market is currently seen as both desirable and acceptable, even for people in full possession of their faculties and in sound health. This view is linked to workplace dissatisfaction, the negative image associated with older workers and the labour-market discrimination they suffer.

In other words, reversing early retirement means taking steps to combat age discrimination in the workplace. It is often claimed that older workers are less productive than their younger colleagues. However, there should also be due recognition of their extensive professional experience, built up throughout their careers. Companies shedding older workers are squandering human resources. In a few years' time, when skilled workers are in short supply, such an attitude will seem incomprehensible. A growing number of companies and governments have now acknowledged the advantages to be gained from hiring and retaining older workers, and have acted accordingly to foster employment in that age bracket. Further training policies should enable workers, in particular older workers, to adjust continuously to the labour market by updating their skills and qualifications.

Employing older workers is not just an economic imperative. It is also a good way of enhancing their well-being. Work is still one of the best means of social integration. In the best cases, it can enable older workers to integrate with new social groups, feel more confident and fulfilled, and maintain their physical and mental skills. However, it should be borne in mind that jobs can also sap an individual's well-being and health, often through poor working conditions and stress. Hence, there is a direct link to better working conditions for all, one of the chief goals pursued by the International Labour Organization (ILO).

Future generations of older workers in the major industrialized countries are likely to be better suited to working longer than their predecessors. Better qualified and healthier than their parents, they will have the potential to extend their working lives by a few more years.

Even if the effective retirement age is still lower than the statutory threshold in most OECD countries, it seems that the national social security institutions have understood the importance of retaining older workers in the labour market. Consequently, almost all the OECD countries have undertaken, over the past ten years, reforms to counteract the move toward early retirement and foster employment amongst the over-55.

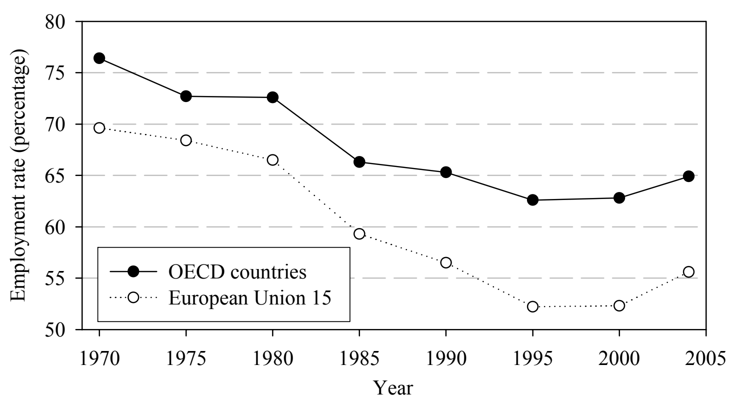
The broadness and the characteristics of the measures depend on the specific choices of the countries but, generally speaking, measures aimed at adapting pension schemes are primarily geared towards curbing the "generosity" of public pensions. Restrictive measures such as raising the retirement age, increasing the number of years for which contributions are to be paid or altering the formula used to calculate pensions have lightened the financial load on pension schemes and adjusted them to reflect demographic pressures and budgetary resources. Governments introducing such reforms also hope that they will delay retirement by making pensions less attractive. More rarely, “carrot” approaches have also been adopted that enable pensions to be combined with income from employment or that offer financial incentives for continuing to work after the retirement age.

Another series of measures directly targets the workforce exodus. Restrictive measures have been adopted, with many countries curtailing or even cutting off access to early retirement schemes. Tighter access to disability annuities and unemployment benefits (in particular, for workers aged 50 and above, who often enjoy special conditions) is geared towards the same goal—that of keeping people in the labour force longer. More innovative measures foster a flexible end to working life, including phased retirement, an adjustable retirement age, or part-time work in the run-up to retirement. For example, many countries have moved away from a mandatory retirement age, which has been replaced by a period of years (usually between 60 and 70) during which various options are possible.

A third set of measures focuses on employment, in order to better integrate older workers into the labour market rather than sidelining them. Myriad provisions are designed to persuade employers to adapt end-of-career working conditions and extend further training to older employees. Other measures set up incentives, subsides and specific work-measures (e.g., quotas, restriction on laying-off) in order to enable older workers to come back to work. Another approach has been to publicize the importance of keeping mature workers in jobs through information campaign and codes of good practice for firms. On a broader note, a number of countries in North America and Europe have ratified legislation banning all forms of age discrimination.

These measures appear to have had an important effect in the majority of the OECD member-countries. According to the OECD statistics, most OECD member-countries (21 out of 30) have increased their employment rate for workers aged 55-65 since 1995. Figure 1 shows averages for men for the OECD member-countries and the European Union. After a long period of decline, the percentage of older workers remaining in the labour market is now increasing.

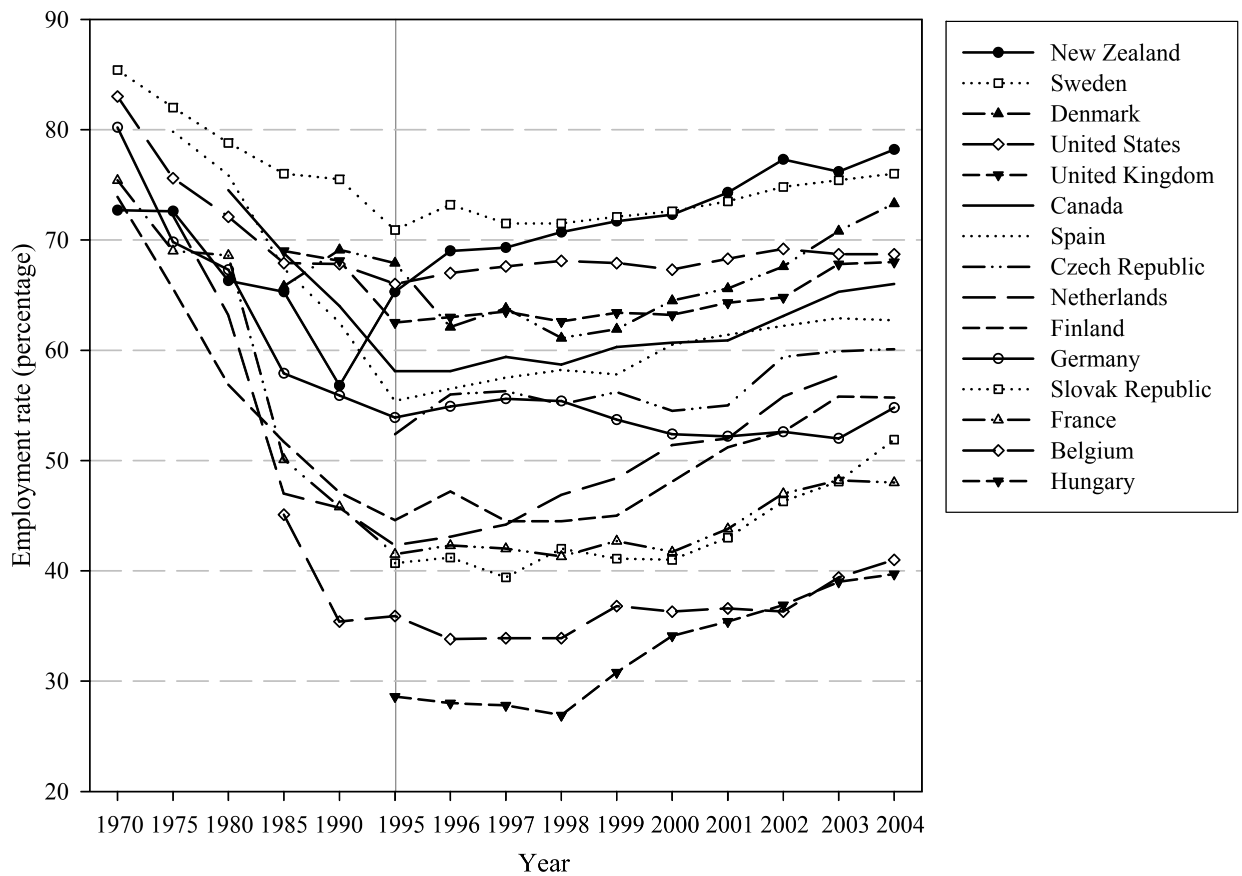
Figure 1. Employment rate for OECD countries and European Union, 1970-2004, for men aged 55-64



Source: OECD Database on Labour Force Statistics.

Figures 2 and 3 show more details about trends in the employment rates for older men in a selection of OECD member-countries. Figure 2shows some of the countries where the rates have increased since 1995. The year in which the rate began to rise varies but is usually in the second half of the 1990s. On average, the shift occurred in 1995 (figure 1). Even though the majority of OECD member-countries have increased their rates since 1995, few have returned to the high levels of the 1970s and the 1980s. It is also important to stress that the current rates differ greatly between the countries. France and Belgium, despite an increase of 5-6 percentage points between 1995 and 2004, recorded a rate lower than 50 per cent in 2004. In this context, it is worth recalling that the European Union has set an important objective for 2010: the employment rate in the European countries for older workers should reach the threshold of 50 per cent (Stockholm target). It is also important to note that there is a minority of countries that recorded a decline in the employment rate of older workers since 1995. This category includes two types of countries: (i) those where the employment rate for older workers remained high even after the decline, such as Switzerland and Japan; and (ii) those where the rate was already low and the decline has worsened the situation, as for example in Italy, Turkey and Austria (figure 3).

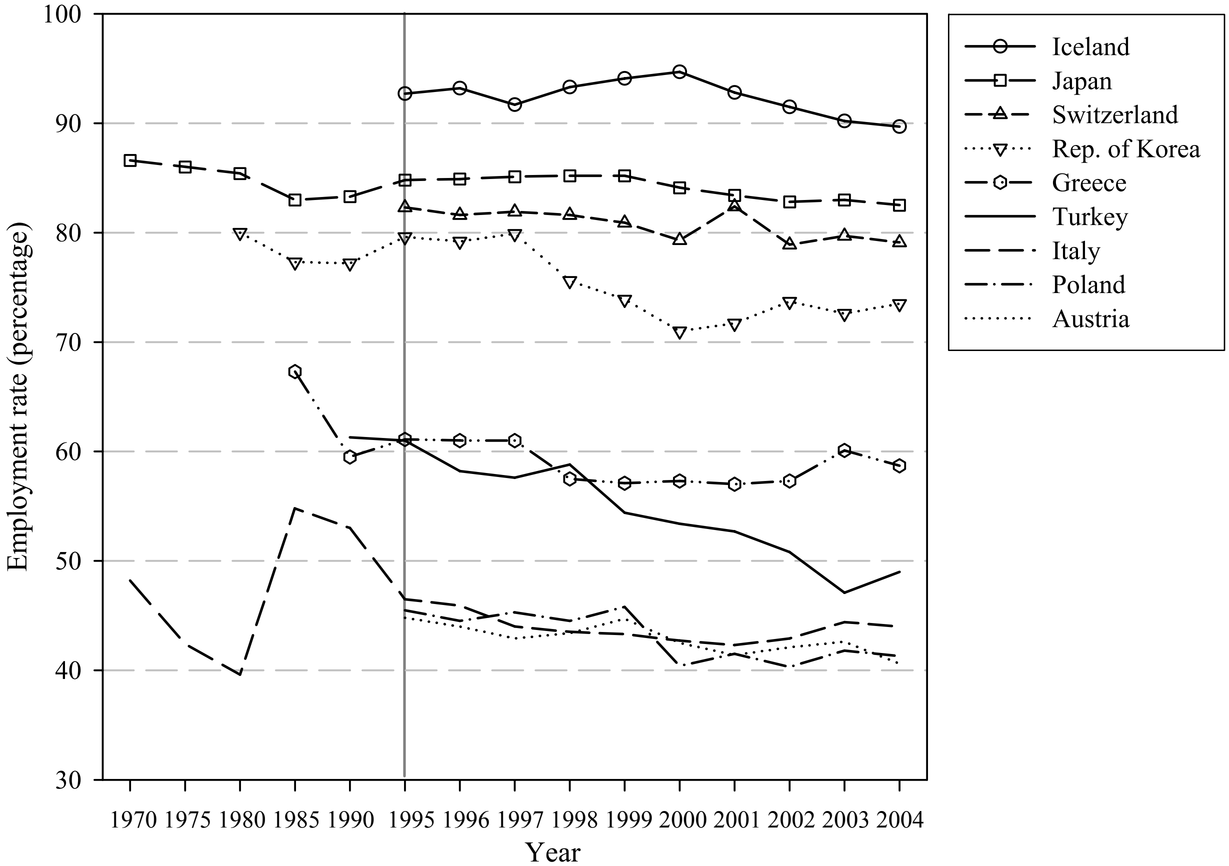
Figure 2. Employment rate for a range of OECD countries, 1970-2004, for men aged 55-64



Source: OECD Database on Labour Force Statistics.

Nonetheless, for the majority of the countries the trend has been reversed, even if it is difficult to pinpoint the exact reasons for this shift. It may be driven by demand (job creation and an upbeat economic climate) or supply (fewer incentives to take early retirement). Be that as it may, economic performance has been modest over the past few years. One thesis is that countries recording increases in rate are those that recently adopted proactive policies to help people work longer, pointing to a positive

Figure 3. OECD countries in which rate in 2004 was lower than in 1995, for men aged 55-64



Source: OECD Database on Labour Force Statistics.

correlation between such policies and effective retirement age. However, adopting the employment such measures is not enough. Probably, the best way to increase the employment rate of older workers effectively and for the longer term is to implement a global reform, which implies changes not only in the labour market, but on a larger scale. Among the OECD countries, Finland, the Netherlands, the United Kingdom and Denmark took up important measures to facilitate longer working lives and gradual retirement by means of reforming the labour market and the rules of social security. These countries have adopted what Reday-Mulvey (2005) calls “a global policy or a holistic approach” aimed at increasing participation of older workers in the labour market, and they have obtained positive outcomes concerning the increase of the employment rate of those aged 55-64 since 1995. Other countries have taken specific steps in order to increase the employment rate of the older workers, but their policies are not yet global (France, for example). However, some positive results can be noticed, which confirm the positive tie between policies and increase of employment rate among older workers. Finally, the lack of policies for older workers may explain the decline or stagnation of the employment rate in some important OECD countries, as for example in Japan, Italy and Switzerland.

Tackling the challenge of atypical employment

Employment is not only essential for enabling social security schemes to meet the challenges of population ageing. It also has a direct bearing on the level of social protection afforded to individuals.

Unstable employment, part-time and temporary work, career breaks, unemployment and low wages all increase the risk of not receiving an adequate pension, ultimately perpetuating insecurity of income post-retirement. Such risks have been exacerbated by recent reforms to contributory pension schemes, which have strengthened the link between contributions and benefits and, by extension, between people's careers and the income they receive upon retirement.

Securing a stable income during retirement is a particular concern for people in atypical employment[1], those working in subsistence farming and those in the informal sector, particularly in developing countries but, increasingly, in middle-income countries too. People employed in the informal economy are generally excluded from all public social security schemes and therefore have little coverage for illness, disability, pregnancy, unemployment and old age. Similarly, "new" freelancers, that is, employees passed off as freelancers to reduce social security charges, will see their entitlements to benefits drastically reduced. Growth in self-employment is being spurred by relatively high and persistent levels of unemployment and by employers' interest in outsourcing or sub-contracting work previously done by employees to what may be called the "pseudo-self-employed". These workers are similar to employees in that many are highly dependent economically on a single client and they do not employ staff. Employer costs are markedly reduced since such workers are not considered to be employees and, therefore, employers may avoid paying social contributions as well as providing other employment-based pay and benefits (Levinsky, 2005).

Giving these workers full access to public social protection schemes would significantly benefit society as a whole. Individual workers and their families would enjoy better protection against life's risks, and increasing the number of people covered by and therefore contributing to social insurance would ensure that the financing of social expenditure was more evenly shared within society. Given the rapid expansion of informal economies in so many countries over the past few years, there is a need to extend social security coverage to the workers affected.

If social protection systems are to offer pensioners a sustainable and stable income, they must provide an adequate level of protection to those in atypical employment and the informal economy. A key step in this connection would be to award a basic pension to all people unable to pay in sufficient contributions during their working lives, as recommended in the International Plan of Action on Ageing adopted at the Madrid World Assembly on Ageing. Whether it is part of the general pension scheme or separate, universal pension coverage would have to be carefully planned. Clearly, the sums paid out would have to be high enough to enable beneficiaries to avoid the poverty trap and enjoy a decent standard of living.

Lessons for the future

A host of studies have recently been published exploring the ramifications of population ageing, usually focussing on the period up to year 2050. Each has come up with theories on growth rates, the evolution of productivity, the potential for increasing the workforce and labour-market participation, and prospects for higher immigration flows, albeit with vastly different social security implications (Sigg, 2002).

A recent study of the International Labour Office (ILO) (Cichon and others, 2003) suggested that industrialized countries could only achieve a real increase in per capita growth over and above productivity growth by boosting labour-market participation and fostering immigration. If growth targets are substantially higher than productivity rates, the number of immigrant workers required will rise dramatically. For host countries, such a trend would raise serious social and political concerns regarding integration, while the brain drain could hamper economic growth of sending countries. More specifically, econometric forecasts made for the countries of the European Union before its expansion show that, other things being equal, if the rate of economic growth is to exceed recent productivity growth by 0.5 per cent, and labour-market participation increased by 15 per cent, new immigrants would need to account for roughly 20 per cent of the population by 2050 (Cichon and others, 2003).

In summary, there is no panacea in terms of policy implications. Immigration alone cannot fill the population gap. Similarly, a massive rise in labour-market participation will help increase employment rates, but will not offset the fall in the number of workers. Higher birth rates are also an option, albeit a long-term one. Ultimately, these and other factors will have to be combined to attain growth levels on a par with those recorded over the past twenty years (2.0-2.5 per cent per annum in OECD countries) and provide young and old alike with a decent standard of living. The measures set out below should at least be considered in countries with a particularly poor demographic structure (for example, in mainland Europe):

- Bolster labour-market participation by at least 15 per cent, by integrating more non-workers and encouraging people to work longer;

- Agree to share wealth with a significantly higher number of immigrants, who could account for a much larger proportion of the population than today;

- Maintain a high rate of productivity increase (roughly 1.5 per cent, which has been the average in industrialized countries over the past twenty years), to be achieved through technological improvements and more efficient work structures;

- Examine family policy options, in particular those that reconcile work and family life, enabling women to have as many children as they want. For example, contrary to the general trend in OECD countries, in France the total fertility rate has continuously increased over the last ten years, from 1.66 in 1994 to 1.92 in 2005 (Pison, 2006), showing that higher rates can be achieved;

- Revise purchasing power expectations, which cannot measure up to levels recorded over the past few decades. Real income growth of 1-2 per cent might, however, be possible. Although the outlook is not as bleak as it seems, a radical change of attitude will be required. That is the challenge that population ageing presents over coming years.

C. ADDRESSING THE CHALLENGES OF AGEING IN LOW-INCOME AND MIDDLE-INCOME COUNTRIES

Most of the issues raised in Section B relate to industrialized countries, where the populations are already relatively old. To date, low-income (LICs) and middle-income countries (MICs) have been assumed to be relatively well protected from these problems, or at least to be spared for some time to come until demographic pressures become more acute. However, nearly all countries, including LICs and MICs, now face mounting socio-demographic pressures. Irrespective of their level of development, countries can ill-afford to ignore the challenges presented by the rapid pace of demographic change. Whereas in some OECD countries it took seventy-five years or more for the percentage aged over 65 years to double from 7 to 14 per cent, in some LICs and MICs it is projected that this same transition will take under thirty years. These changes will constitute a very harsh test of the capacity of these societies to adapt, especially in countries with a rapidly declining fertility rate.

Communicable and non-communicable diseases, including the AIDS pandemic and malaria, place further strains on the ability of many societies to cope with the ageing of the population. In cases where the working-age population has been decimated, the general productive capacity of society is severely reduced and it becomes much more difficult to support children and frail older persons.

In many LICs and MICs contributory social security schemes protect only a small proportion of the population, with coverage being mainly confined to civil servants and employees in the formal labour market. Workers in informal employment often do not have any access to social protection, and therefore face destitution in the event of the temporary or permanent loss of their earnings capacity. The extension of social security coverage, especially with respect to health care and old-age pensions, is therefore a vital element in improving the well-being of these workers. Building effective social safety nets, for example through the institution of basic universal or means-tested, tax-financed old-age pensions, can help to prevent destitution for those many people with no means of contributing to a social security scheme.

Traditionally, a major asset of many LICs and MICs has been strong family and community networks that offer mutual support to their members. In countries where formal social security schemes are not well developed, these networks can be essential for coping with the ageing of the population, especially since they provide transfers of resources in cash and in kind from the active to the inactive members of the community. The notions of mutual support and reciprocity have been central to the functioning of these relationships. While older people may receive money, nutrition or other goods, it should be recognized that they play an important and irreplaceable role in the family and the community.

But the strength and robustness of family and community networks should not be overestimated. Increased geographical mobility, as a result of urbanization and migration, changing family patterns, diseases, natural disasters, as well as underemployment, poverty and destitution, is placing major strains on the capacity of mutual support networks. It is therefore questionable whether families and communities will continue to be strong enough to cater for all members of society, and it is likely that a growing proportion of the population will be excluded from these traditional forms of support.

Family and community networks are not a substitute for formal social security schemes but, together with such schemes, they constitute an important element of a comprehensive social protection strategy. Formal and informal support mechanisms can be mutually reinforcing. Formal schemes can step in when major contingencies occur that would overstretch self-help capacities, while at the same time strengthening such capacities. A combined approach can therefore provide a basis for social protection that takes into account needs and capacities. A well-balanced approach would offer social security transfers and services to those who are in need, but would take care not to disrupt existing support networks. For example, the provision of childcare should not deprive older persons of their role in caring for young children, but it could integrate them in the provision of these services (Apt, 2002). This is an example of an innovative approach to building social protection in low-income and middle-income countries that is both economically and socially sustainable.

Concerns about the sustainability of old-age pensions and health care schemes in industrialized countries should not discourage the further development of social security in low-income and middle-income countries. Using the policy experiences of other countries with similar levels of socio-economic development, LICs and MICs should develop and implement social security policies appropriate to their national specificities. Even if the possible policy options remain limited, it is increasingly accepted that successful economic development requires the development of a viable social security system.[2]

Assessing the coverage gap[3]

Among the specific issues relating to developing countries outlined above, the one that gives rise to most concern is the very low access to social security their populations have. Indeed, at the start of the twenty-first century, less than 25 per cent of the world's population has access to adequate social security coverage, and no more than half of the population benefits from some form of social protection (Van Ginneken, 2003). A close connection can be found between a country's level of economic development and social security coverage. While, at one extreme, OECD countries have near-universal coverage of around 90 per cent of the population, at the other extreme, in sub-Saharan Africa and South Asia, coverage commonly extends to less than 10 per cent of the population.

Further analysis shows a relationship between the level of social security coverage and per capita GDP, the proportion of people employed in the agricultural sector, the percentage of the economically active workforce who is self-employed, and the estimated percentage of GDP generated in the informal sector. A relationship between the level of social security coverage and whether the social security system is national, or comprised of sector- or occupation-based schemes can be observed as well.

It can be said that coverage is generally lower in those countries where demographic ageing is not yet an issue, typically LICs. In this sense, such countries arguably have a window of opportunity to improve social security today, while it is more financially viable to do so. In these countries, challenged by health and disease problems, improving social security coverage today is perhaps an essential foundation for improving economic productivity, which in turn can ensure sustainable social protection in the future. Extension of social security coverage is therefore a vital issue for developing countries both today, and with an eye to demographic changes ahead.

If coverage is defined in terms of being in receipt of an old-age pension, a study by the International Labour Organisation (ILO, 2000) shows that large proportions of the population in many regions of the world do not enjoy any social protection, or have only very limited coverage. While in industrialized countries coverage ranges from around 70 per cent (e.g., United Kingdom) to almost 100 per cent (e.g., Finland), coverage in MICs is estimated to vary between 17 per cent (e.g., Mexico) and 88 per cent (e.g., Czech Republic). In LICs, estimates of coverage range from 4 per cent (e.g., Thailand) to 47 per cent (e.g., Morocco).

If coverage is based on whether people of working age currently contribute to pension schemes or are covered by a residence-based or universal scheme, an average of 84 per cent of the current working age population in industrialized countries can be regarded as covered by a state pension. In MICs, approximately half of future recipients were covered. In LICs, an average 12 per cent of people of working age were contributors to pension schemes of any kind.

While the figures presented for the first two groups of countries show the proportion of people who are covered by the main national pension scheme, they do not show all those who are in receipt of a retirement benefit of one type or another. Each of these countries relies upon a mix of some or all of statutory contributory, non-contributory, non-contributory means-tested and private schemes to provide income security in old age. Ideally, coverage would have been broadly defined in order to include receipt of any eligible benefit for a specific risk. The requirement to work with published data, however, meant that it was not possible to assess the number of people who were actually in receipt of any one of these benefits. Simply summing the numbers in receipt of each benefit for a given risk would be subject to multiple counting of people.

If survivor benefits, occupational and private pensions and means-tested social assistance are taken into account, it is estimated that each of the industrialized countries provides social security in old age for over 95 per cent of the population. In many of the MICs, it is likely that most people are covered for old-age pensions if survivor benefits and social assistance are included. However, in all countries, nominally high coverage rates under non-contributory means-tested schemes may disguise actual take-up.

Describing the recent trends in coverage is difficult, due to the diversity of situations. For instance, coverage by social insurance may be declining in countries such as the Czech Republic and Hungary, while coverage for old age in both Mexico and Uruguay either stagnated or declined during the middle and second half of the 1990s. By the end of the decade, coverage in Mexico had returned to the level it had been prior to the 1995 economic crisis. However, while Uruguay still had one of the two highest pension coverage rates in Latin America, there was a downward trend in coverage between 1999 and 2001, while non-compliance steadily rose between 1996 and 2000.

Key characteristics of excluded groups

Exclusion is "non-random". There are, across countries, systematic similarities in who are least likely to be covered by social security: women, migrants, and agricultural and urban informal sector workers. These groups are unprotected largely because of the interface between their labour market position and the role and design of contributory schemes, which lie at the heart of most countries' social security systems. These findings have important implications for the design of policies to extend coverage of social security.

The agricultural and urban informal sectors

The agricultural and the urban informal sectors present particularly acute challenges to those seeking to extend coverage of social security. Nearly half of the world's labour force is employed in agriculture, while over the past two decades, globalization and structural adjustment have increased employment in the informal sector in all regions of the world (Charmes, 2000).

Even where agricultural and informal urban sector workers have rights and entitlements to social security, low educational qualifications and lack of trade unionism may prevent some groups from accessing their rights. Many informal sector employers avoid paying contributions for their employees, while in many LICs, the State does not have effective institutional mechanisms to detect, affiliate and collect contributions from self-employed, micro-enterprise and informal sector workers.

Where schemes are available on a voluntary basis, the proportion of those who join is often very low. This may be because many workers in the agricultural and urban informal sectors have immediate needs for food, shelter and clothing and may be unable or unwilling to set aside a relatively high proportion of their current incomes to meet future needs. Many may lack coverage because of fluctuations in their incomes. The absence of a contributing employer may also reduce the incentive of self-employed workers to contribute.

Women

Coverage for old-age pensions has an important gender dimension. Only in universal schemes are retired women as likely to receive a pension as men. A partial explanation for the high coverage rates for women in some countries may lie with contribution credits granted in those countries to people who are temporarily outside the workforce. In most MICs, men were about one-third as likely to receive an old-age pension as women, whereas in industrialized countries, men were about one-quarter again as likely as women to receive a pension. Amongst LICs in the few cases where male and female figures were available separately, men were almost four times more likely to receive a pension than women. Public pension systems have been designed with an expectation that men would be the primary economic providers: "despite their larger numbers, women receive less old-age support from public programmes than men do because they are less likely to have been in the formal labour force. Pensions for women are in effect linked to the contributions of husbands." (UNFPA, 2000, p.44).

Migrants

Another group of people who may be disproportionately represented among informal workers are migrants. In some cases, migrants may not be legal residents and consequently may not have any entitlement to benefits. Moreover, many countries have nationality or residence conditions attached to at least some old-age pensions or health-care services that may exclude migrants who are legally resident. Those who are not excluded by nationality and residence conditions may have work histories that do not conform to the long-term formal sector employee model and may not have paid sufficient contributions to build up an entitlement to a full pension. Migrants may be discriminated against and may also be reluctant to assert their rights.

Policies to extend coverage

Policymakers tasked with extending the scope of coverage must decide which programmes or combination of programmes are likely to best meet the aim of providing social security for all parts of society and foster institutions at the national, local and community level that are able to deliver the selected benefits and services.

Choice of programme

While contributory systems may provide a high level of protection for members, they are exclusive and not open to outsiders. Our findings show that the contributory social insurance model developed in Europe, based on employment status where individuals have an earnings and employment record, has proven to be ineffective in extending social security beyond the urban elites in LICs and some MICs where agriculture remains labour intensive and the urban economy is largely informal.

Indeed, as contributory schemes have a strong connection with the labour market and are intended primarily for people with secure, long-term jobs in the formal economy, they are not entirely suitable or relevant to developing countries, where a majority of the people have little or no capacity to contribute to a pension scheme. They fail, especially, to cover the poorest sections of society that may need social security most. As an ILO (2000) report states: "In many developing countries, the proportion of the labour force in formal sector employment is small and, recently, has even fallen, partly as a result of structural adjustment programmes. If they opt for social security coverage, the self-employed and those with no easily identifiable employer have to pay the full contribution themselves and, generally speaking, feel unable to afford this."

In addition, the administration of social security schemes in many developing countries has been so weak that satisfactory compliance rates have often not been achieved even among the limited groups of workers who should legally be covered by the scheme This has made governments, social security institutions and workers already covered by the schemes reluctant to support measures to extend coverage. Another factor that adds to this reluctance is the low contributory capacity of the workers outside the formal sector, which implies that they have to be supported with cross-subsidies.

These findings have important implications for the extension of social security coverage, suggesting that it will be necessary to move beyond conventional social insurance to expand coverage to groups that are currently unprotected. Options to extend social security coverage to unprotected groups include:

- Tighten the link between benefits and contributions

The direction of policy in some countries, especially in industrialized countries, has recently seen a tighter link between benefits and contributions as they introduce multi-pillar systems with a large defined-contribution component (see box 1), usually accompanied by a modest redistributive public pillar. It is argued that this tighter link is a precondition for financially sound expansion of coverage, ensuring that revenue covers obligations and so making the system more sustainable for those who are included (James, 1999; World Bank, 1994).

While proposals to increase the availability of second- and third-tier pensions may provide greater security and maintain high income levels in retirement for those in stable, formal employment situations, it is very unlikely that these policies will be more inclusive of groups who are currently legally or de facto outside the scope of existing provisions. Indeed, where such schemes are expanded at the expense of basic state pensions, they may even increase the number of people who are without social security coverage.

BOX 1. THE THREE PENSION PILLARS

Pension pillars can be defined in different ways, trying to capture the key dimensions in the design of national pension systems. The following elements are important in describing pension systems:

- Coverage: is it universal?
- Participation: is it mandatory or voluntary?
- Contributions: where is the system within the spectrum moving from a general revenue-financed (perhaps means-tested) benefit, to some form of earnings-based formula –defined benefit scheme, ending with a pure individual lifetime account scheme, called defined contribution?
- Benefits: to what extent do benefits (annuities) reflect the life expectancy of the retiree at retirement?
- Funding: to what extent do assets cover future liabilities?
- Management/ownership/governance: is it public, private or some mix?

In 1994, the World Bank on an influential report titled Averting the Old-Age Crisis defines the three pillars in this way:

Basic pension: the first pillar is an anti-poverty pillar that is non-contributory and guarantees a minimum income in old age. It is intended to protect the elderly from absolute poverty.

Forced savings: the second pillar is a forced savings pillar that provides benefits only to contributors, and, in general, provides the most benefits to those who contribute most.

Voluntary savings: the third pillar is available to anyone who cares to supplement the retirement income provided by the first two pillars.

- Modify the contributory principle

The findings show that contributory insurance schemes, in their current form, do not work for large sections of the population in many countries. As previously stated, these systems limit the number of covered people. Open to the formal-sector workers, they do not normally cover people who do not earn an income from work. Furthermore, people who do have incomes from work but are outside the formal sector are typically not able or willing to contribute a relatively high percentage of their incomes to finance social security benefits that do not meet their immediate priority needs. Therefore, many groups of people remain unprotected because of their position in the labour market, and many people reach old age with no pension entitlements, including almost all of those who have been poor during their working lives.

Coverage of contributory schemes could be extended to groups who are presently excluded by reducing contribution rates that are unaffordable to many people with low incomes, and amending entitlement conditions to take into account the particular circumstances of selected groups such as the self-employed and domestic servants, women and migrants. Policies likely to improve pension coverage for women will modify contribution requirements and ensure that schemes provide adequately for survivors. For migrants, the contributory principle could be modified similarly to provisions that have been considered for women, for example, to allow migrants to select "best years" contributions. This option requires contributors or the State to subsidise previous non-contributors and requires them to be perceived as legitimate claimants by contributors and/or taxpayers. Hence, it may be more difficult to extend this approach to groups that are often perceived as "outsiders", such as migrants.

- Move beyond the contributory principle

Another option, which may be combined with either of the two previous options, is to introduce a tax-financed safety net to help cover the gaps that arise in a contributory scheme. It has been suggested that the Australian means-tested system (see box 2) provides a model for countries that cannot afford or do not wish to go down the social insurance route.

However, there is evidence from several countries that means-tested social assistance does not always reach the intended population and nominally high coverage rates under non-contributory means-tested schemes may disguise actual take-up.

Non-take-up refers to the fact that some social benefits are available but not used by eligible recipients. In policy debates, this is generally not considered to be a serious issue. This comes from the presumption that only very few people entitled to social benefits will fail to receive them because people will seek their profit and will not intentionally renounce a financial gain. Nevertheless, many studies show that only in a few rather specific cases are non-take-up rates less than 20 per cent (Nicaise, 2001). The reasons for non-take-up appear to be many and varied, such as personal choices, lack of knowledge, administrative complexity, and fear of being stigmatised in case of claiming means-tested benefits. Non-take up of means-tested benefits may exclude more women than men.

BOX 2. AUSTRALIA'S PENSION PILLARS – KEY CHARACTERISTICS

Unlike most other high-income countries, Australia has never had an earnings-related social insurance pension system. Its social security retirement income system combines two components.

The first is known as the Age Pension, which is a flat-rate pension funded out of general government revenues, and which, although means-tested, is received by the majority of the nation's retirees. The age pension is about one third of average full-time earnings and serves primarily to guarantee a minimum standard of living.

The second component is a mandatory defined-contribution savings programme, called the *superannuation guarantee.* Since 1992, it has provided a second pillar for most people. It was introduced in part to reduce government expenditures for old-age pensions. Employers must participate in this scheme or pay charges that are larger than the contributions. Employees are not required to contribute but can make voluntary contributions for themselves and their spouses. As a result, the number of workers in occupational schemes has risen from 39 per cent in 1986 to over 90 per cent today.

- Universal entitlement

For those seeking to close the coverage gap, universal non-contributory schemes are of major interest in principle because, by definition, they cover the whole target population and can therefore make a major impact on coverage rates. The entitlement is regardless of any assets, income and/or other pensions from defined contribution schemes. Every pensioner is entitled to the same amount, rich and poor alike. It is basically this feature that distinguishes the universal pension from the means-tested pension. The latter is selective and provides reduced benefits, or none at all, for those whose income or assets exceed a specified level. It is intended to keep costs down and reduce any "deadweight" that may have resulted from supporting those who already have sufficient individual resources. In practice, however, means-testing often does not produce the desired results because of high administrative costs and non-take up (ILO, 2000).

Contrary to the widespread view that LICs cannot afford universal pension schemes, examples from a number of LICs and MICs show that the provision of universal pensions are feasible and affordable (Barrientos, 2003). Universal pension schemes cost governments more but have a number of advantages worth considering. Unlike selective schemes, they do not discourage workers from contributing to social insurance and to private pension schemes, since these contributory benefits will not adversely affect their entitlement to the basic non-contributory pension. Furthermore, they are much more feasible from an administrative point of view, particularly in developing countries where it is often difficult to obtain reliable details about people's incomes and assets. In addition, they tend to receive political support from all sections of the community, as all will receive the benefit in old age. Generally speaking, they enjoy a high level of public confidence as, unlike selective schemes, they offer little opportunity for fraud or favouritism (ILO, 2000).

The role that such schemes can play in both rapidly extending social security coverage and alleviating poverty is gaining wider international interest. It is acknowledged that these schemes not only provide social security benefits especially to older people and, in some cases, also to the disabled but, the cash benefits have wide poverty-alleviating impacts for recipients' family members and dependants. Indeed, studies of several countries in sub-Saharan Africa and Latin America have concluded that non-contributory pension programmes can make a significant contribution to improving the well-being of older people, reducing poverty, and facilitating economic development basis (see box 3). For universal and means-tested non-contributory schemes as well, the key issue is how best to deliver and finance such schemes on a sustainable way.

Administrative capacity and governance

When considering policy options, the State's capacity for intervention is crucial. In industrialized countries and, to a varying degree, in MICs, the State has the institutional capacity to collect taxes and contributions, which provides the scope to extend existing public-based coverage to excluded groups.

However, in LICs, the State's capacity to collect taxes and contributions and to deliver benefits and services is much smaller. From this perspective universal benefits and services may be the most realistic choice of policy instrument for extending coverage, as these require far less administrative machinery than contributory or means-tested benefits and services. Nevertheless, whatever the choice of programme, it will be necessary for LICs and some MICs to build the capacity and commitment of the State to gather taxes and contributions and deliver benefits and services to the target populations.

BOX 3. NON-CONTRIBUTORY OLD-AGE PENSION SCHEMES IN SELECTED COUNTRIES

Universal schemes

Namibia: Old-age pension schemes in Namibia were inherited from the colonial South African regime at the time of independence in 1990. The National Pension Scheme (NPS) – otherwise known as the Universal Pension Scheme – is a social pension, which provides a flat-rate benefit, non-contributory and non-taxable. During the apartheid years, the system was characterised by extreme inequalities. White Namibians received substantially higher social pension payments than blacks. After the country's transition to democracy in the 1990s, the government brought about harmony and alleviated these racial discriminatory practices and put all beneficiaries as equals. Currently, everyone who is a Namibian citizen residing in Namibia and is above the age of 60 years is entitled to the old-age pension. This entitlement is regardless of any assets, income and other pensions from defined contribution schemes. According to studies, the social pension affects its recipients, their families and local communities in a variety of ways including contribution to household incomes, poverty reduction and food security, and education of grandchildren.

Mauritius: Since the mid-1970s, Mauritius has had a dual universal and social-insurance pension. Every elderly resident of Mauritius receives income support from a system of non-contributory pensions, subject to a minimum residency requirement (12 years from age 18 for citizens; 15 years from age 40 for non-citizens). The scheme dates from 1950 and became universal in 1958, following abolition of a means-test. In the fiscal year 2002-2003, the amount of the pension was Rs 1,700 (US$58). Moreover, a generous pension is provided to all residents over the age of 90 and 100 years. Those who are disabled receive additional benefits. These basic pensions are not income-tested. However, they are taxable as ordinary income. Hence, those who continue to work or have other sources of income, return some of their pension to the government in the form of tax. Contributory pensions began to operate only in 1978. Participation is mandatory for workers older than 18 years of age, with the exception of employees with very low earnings, the self-employed, and public sector employees.

Bolivia: In 1996, Bolivia established the Bono Solidario (BONOSOL), a universal pension programme providing a cash transfer to all Bolivians over 65 years of age. Created as part of the ambitious social and economic reforms implemented by the Government of Bolivia during the mid-1990s, the Bonosol pension programme was conceived with three primary objectives. First, it was a mechanism for returning the equity held in Bolivia's recently "capitalized" state enterprises to the Bolivian people. Second, it would serve to cover the large majority of elderly people with no access to the old pension system. Third, it was intended to help reduce poverty by targeting a particularly poor and vulnerable segment of the population. Instead of being funded through the budget, the base pension is financed through the country's 50 per cent ownership in partially privatized state-owned enterprises. The BONOSOL was first paid in May 1997 in the amount of US$248. Between 1998 and 2000, the transfer programme was suspended while a new administration debated the viability and use of the programme's resources. The BONOSOL payment was reinstituted in 2001 and 2002. Even though the BONOSOL is open to all Bolivians over 65 years of age, the benefits it pays out are primarily tailored to the rural regions of Bolivia, where 99 per cent of all elderly people currently live below the poverty line. The BONOSOL programme may be seen as an innovative, potentially important instrument for alleviating old-age poverty in a country which is marked by extreme inequalities and social exclusion.

/……

Means-tested schemes

South Africa: The pension is a means-tested benefit granted to women from age 60 and men from age 65. The programme began in the early 1900s as a means of providing a basic income in retirement for whites and coloureds who lacked an occupational pension (van der Berg, 2001). Subsequently, the programme was extended to blacks (1944), but with more stringent conditions for entitlement and lower benefit levels. After the fall of apartheid, parity in the provision of the social pension was instituted, at a lower level than that previously enjoyed by the whites. Blacks are now the main beneficiaries. The scheme is funded through general taxation and pays relatively generous pensions (around $3 per day). Benefit entitlements are means- tested on the income of the individual beneficiary, and his/her partner if married, but not on the income of other household members. The benefit produces a significant redistribution of income in a country where, on average, the incomes of whites remain ten times that of Africans.

Brazil: In Brazil, non-contributory pensions serve mainly to complement contributory pensions, benefiting primarily those who, particularly in rural areas, have not contributed to social security during their active lives. Social security benefits equivalent to the minimum wage are paid out to rural workers from the age of 60 (men) and 55 (women), on condition that they can prove at least 10 years of rural activities (whether or not they have previously contributed to the system). The rural old-age pension is very important in that it ensures a minimum retirement income to those who have worked in family agriculture, restoring the elderly to the status of assets, instead of the liabilities they had come to be to their families in the past. In March 2001, 6.5 million rural benefits were granted (33 per cent of the total), which represents an annual expenditure of about 1 per cent of GDP. The urban non-contributory old-age benefits are much less common and less developed. This is because, firstly, the urban population has much better access to government contributory mechanisms than does the rural population and, secondly the conditions of entitlement are more stringent in urban than in rural areas. The maximum family income requirement is very low and the minimum age of entitlement high (67 years or older).

It may be particularly difficult to deliver health care services to isolated rural areas due to low population density and dispersion, lack of infrastructure and medical professionals, illiteracy, language and ethnic barriers, cultural prejudices against modern medicine, and lack of trust of the user in the quality of the services available. Good governance is crucial to the effective and efficient use of resources and to gain confidence in the credibility and integrity of the programme. There are examples of good practice within MICs. For example, specific strategies of reforms in Costa Rica include improving governance by increasing the participation of the community in decisions about health policy at the local level, while at the same time lowering the cost of providing basic health care services by improving the coordination of relevant agencies.[4]

Options for the future [5]

If the policy aim is to extend social security to all parts of society, then policymakers must decide which programmes or combination of programmes are likely to best meet this objective. The direction of policy in some countries is to replace social security programmes that exhibit a redistributive element with programmes having direct equivalence between individual contributions and benefits. If the policy aim is to extend coverage, it is very unlikely that this route will be successful. Our findings suggest a link between funding method and coverage. Coverage appears to increase the further the scheme moves away from a direct equivalence between individual contributions and benefits and towards a social security scheme that redistributes resources.

The relationship between redistribution and coverage is perhaps not surprising. While schemes that are based on equivalence between individual contributions and benefits can provide security in old age and sickness for "insiders", they are closed to those who may need social security the most. In many cases, it is not feasible to bring the excluded within the scope of contributory benefits. Providing adequate social protection for these groups will necessitate a complete or partial decoupling of contributions and benefits and a redistribution of resources.

In some parts of the world, the coincidence of limited financial resources with large-scale need conspires against implementing an effective universal social security system. In the general and likely continuing absence of universal solutions, especially in lower-income developing countries, the short- to medium-term task at hand appears to be one of examining all possible avenues for building creative organizational linkages between existing contributory and non-contributory social security programmes and other forms of voluntary social protection to increasingly provide at least a basic degree of security. In the longer term, and labour market conditions permitting, the policy objective must remain one of significantly increasing the numbers of people covered by, and guaranteeing the right to benefits under, mandatory social security. To this end, all efforts that aim to promote more stable and more secure patterns of employment globally should be encouraged. By raising productivity, the improvement of employment prospects will also help to secure the sustainability of social security in the longer term.

Is this a feasible route for low- and middle-income countries in today's global economy? Heater (1990) argues that the growing economic and monetary interdependence of the world undermines any argument for operating a policy of distributive justice within the strict confines of the nation State:

> "If economic mechanisms are transnational, so too should be economic justice."

The key political challenge that closing the coverage gap poses is to secure legitimacy at both the national and the global level for the sharing of risks and redistribution of resources so that a commitment can be made to providing and maintaining social security for all, not just a few. One such example is the Global Social Trust Initiative suggested by the ILO (Cichon, 2003).

D. Concluding remarks

Population ageing will unquestionably be one of the key factors shaping social and economic development across the world over the next few decades. Each society will need to find a viable adjustment strategy. The Second World Assembly on Ageing, held in Madrid in 2002, underscored the active role that older people can play in society. Active ageing is increasingly portrayed as a promising model for the future. This idea acknowledges the contribution that senior citizens make to society and promotes their active involvement in all areas.

The World Health Organization (WHO) defines active ageing as:

> "The process of optimizing opportunities for physical, social and mental well-being throughout the life course, in order to extend healthy life expectancy, productivity and quality of life in older age."

One of the cornerstones of active ageing is employment, in the broadest sense of the term. In other words, active ageing includes unpaid activities, community work, helping to raise children, involvement in charities, etc. Active ageing has a direct impact on an individual's health and physical and mental well-being. The strategy is mainly geared towards social integration, but also seeks to foster autonomy, dignity and freedom. It is worth noting that active ageing is relevant for all age brackets, not just older citizens.

Increased life expectancy will become the hallmark of our societies in coming years, often in conjunction with the economic development of countries. In "long-life societies", people will switch between paid employment and voluntary work throughout their lives and will be more active in old age than previous generations.

Social security should be an integral component of any active ageing strategy to ensure an adequate standard of living for all those unable to earn an income, owing to age, disability, poor health or other constraints. Pension levels should be ample and stable enough to enable older people to live out their final years free from financial worries. That is a prerequisite, if they are to remain in employment or active and useful to society. However, it is equally important that older people be fully integrated into society, enjoy the same rights as other citizens, and have access to health services and high-quality, long-term care. In this connection, there is some doubt as to whether the current trend towards greater individual responsibility, in particular shifting cost to the individual, will guarantee a sufficient degree of social protection to provide the standard of living required for a full, active and socially useful old age.

A long-life society must cater to young and old alike. Population ageing makes it more important than ever to provide families with decent conditions in which to raise and educate their children. More specifically, families should be guaranteed the financial resources needed to shield them from poverty and give them access to education, health-care, and childcare facilities. Economic globalization makes spending on education an even more crucial investment for a country's competitiveness and productivity over the coming years.

Education should increasingly be perceived as an investment, in both country's economy, since it improves workforce qualifications, and its citizens, who earn a decent wage and are ultimately able to secure better social protection. Education should be a permanent feature of a long-life society, enabling people of all ages to remain fully fit for work and, in due course, be more active and autonomous in old age.

The real quest over the next few years will be to devise an integrated strategy to tackle impending social and demographic changes. The strategy needs to be based on a realistic assessment of the situation. Population ageing affects a wide range of policy areas, including the labour market, economy, education, social security, and health. These areas are generally managed by a variety of stakeholders reporting to different ministries, which are guided by their own specific rationale. For example, many countries have introduced policies enabling employers to encourage early retirement as a way of reducing staff levels. However, early retirement undermines efforts to curb pension spending. An integrated strategy would seek to avoid such inconsistencies and foster a coherent, efficient approach in the future.

Social security institutions might find it even more difficult to achieve an integrated approach. A range of different funds and government departments are often involved in areas such as old-age, disability, unemployment and family, making it hard to ensure a coordinated or coherent attitude towards the people concerned. A number of trials involving "one-stop-shops" and using current information technology resources prove that some degree of integration is possible and very much in the interests of both scheme members and other social security beneficiaries.

Societies have proven their remarkable ability to adjust to change, and there is no reason why they should not do likewise in respect of population ageing. Adjustment could be made easier by focusing on policies to bolster employment and productivity, with due regard for the needs of all population groups. Only in this way can we guarantee citizens of all ages a just and fair society.

NOTES

[1] The term *atypical employment* is commonly used to refer to a large and growing area of relatively new types of employment, including jobs which are not permanent and/or not full-time such as part-time and fixed-term work, temporary-agency work, working from home, tele-work, "on call" work, seasonal work, student jobs, subcontracted work and the "pseudo-self-employment" of workers who are, in practice, bound to a single employer.

[2] This is the case, for example, in many South-Eastern Asian countries. See Gough, 2002.

[3] This section is based on a study commissioned by ISSA and reflected in Roberts and others, 2004.

[4] See http://info.worldbank.org/etools/docs/reducingpoverty/case/27/summary/CostaRica-El-Salvador%20Summary.pdf.

[5] For more detailed proposals, see McKinnon, 2005.

REFERENCES

Apt, N. Araba (2002). Ageing and the changing role of the family and the community: An African perspective. *International Social Security Review,* Vol. 55, No. 1.

Barr, N. (2002). Reforming pensions: myths, truths, and policy choices. *International Social Security Review*, vol. 55, No. 2.

Barrientos, A., and P. Lloyd-Sherlock (2003). Non-contributory pensions and social protection. *Issues in Social Protection Discussion Paper* (Geneva : International Labour Office).

Charmes, J. (2000). Informal sector, poverty, and gender: a review of empirical evidence. Paper commissioned for World Development Report 2000/2001. World Bank, Washington.

Cichon, M. (2003). A Global Social Trust Network: A new tool to combat poverty through social protection. *ISSA Initiative, Findings and Opinions.* (Geneva: International Social Security Association, available on www.issa.int).

Cichon, M. and others (2003). White and prosperous: How much migration does the ageing European Union need to maintain its standard of living in the twenty-first century? Compendium of the "4th International Research Conference on Social Security: Social Security in a Long Life Society", Antwerp, 5-7 May 2003, Geneva, International Social Security Association (available on www.issa.int).

Economic Policy Committee (2000). Progress report to the Ecofin Council on the impact of ageing populations on public pension systems (EPC/ECFIN/581/00). Brussels.

Gough, I. R. (2002). Globalization and national welfare regimes: The East Asian case. In *Social Security in the Global Village*, Sigg and Behrendt, eds. New Brunswick: Transaction Publishers.

Heater, D. (1990). *Citizenship: The Civic Ideal in World History, Politics and Education*. London: Longman.

International Labour Organisation (2000). *International Labour Office World Labour Report 2000: Income Security and Social Protection in a Changing World.* Geneva: International Labour Office.

James, E. (1999). Coverage under old-age security programs and protection for the uninsured – what are the issues? Paper presented at Inter-American Development Bank Conference on Social Protection, 4-5 February, World Bank (1994).

Levinsky, R. (2005). Social security and labour market developments: Facilitating flexibility by strengthening security. In *Social Security: Toward Newfound Confidence*, Levinsky and McKinnon, eds. Geneva: International Social Security Association.

McKinnon, R. (2005). Extending coverage and increasing security. In *Social Security: Toward Newfound Confidence*, Levinsky and McKinnon, eds. Geneva: International Social Security Association.

Mullan, P. (2000). *The Imaginary Time Bomb: Why An Ageing Population Is Not A Social Problem*. London: I. B. Tauris.

Nicaise, I. (2001). *A Note on Non-Take-Up of Benefits.* Leuven: HIVA.

Pison, G. (2006). La population de la France en 2005. *Population et Société,* mars 2006.

Reday-Mulvey, G. (2005) *Working Beyond 60? Key Policies and Practices in Europe*. New York: Palgrave Macmillian.

Roberts, S. and others (2004). Assessing the coverage gap: A synopsis of the ISSA Initiative study. *ISSA Initiative, Findings and Opinion*s. (Geneva, International Social Security Association, available on www.issa.int).

Sigg, R. (2002). Pensions at risk? The ageing of the population, the labour market and the cost of pensions. In *Labour Market and Social Protection Reforms in International Perspective: Parallel or Converging Tracks?* Hedva Sarfati and Giuliano Bonoli, eds. Ashgate: Aldershot.

______ (2005). Extending working life: policy challenges and responses. In *Social Security: Toward Newfound Confidence*, Levinsky and McKinnon, eds. Geneva: International Social Security Association.

United Nations (2001). *Replacement Migration: Is it a Solution to Declining and Ageing Populations?* United Nations publication, Sales No. E.01.XIII.19.

United Nations Population Fund (2000). *The State of World Population 2000.* New York: United Nations Population Fund.

Van Ginneken, W. (2003). Extending social security: Policies for developing countries. *ESS – Paper* No. 13 (Geneva, International Labour Organization).

World Bank (1994). *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth.* New York : Oxford University Press.